



Economics Group

Sarah House, Senior Economist
sarah.house@wellsfargo.com • (704) 410-3282

Jobs Recovery Continues, but the Pace Is Slowing

Employers added 1760K jobs in July as the labor market’s recovery remains intact. With the pace of re-openings slowing in recent weeks, however, further gains will be more incremental and a full recovery is years away.

Chipping Away, but Still a Long Way to Go

The recovery in the labor market remains intact, but the pace is slowing. Employers added 1.76 million jobs in July compared to 4.79 million in June. Government payrolls increased by 301K, flattered by seasonal factors after layoffs in education occurred earlier this spring as schools shut down. Those effects will be unwound come the August report, contributing to a further moderation in job growth next month.

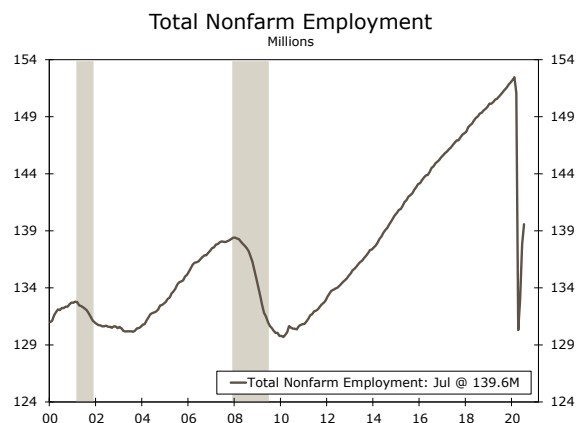
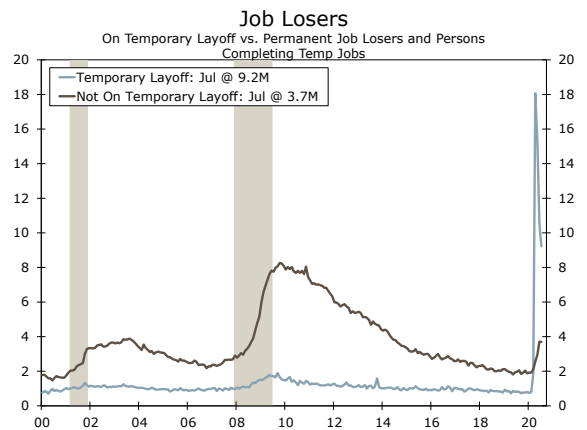
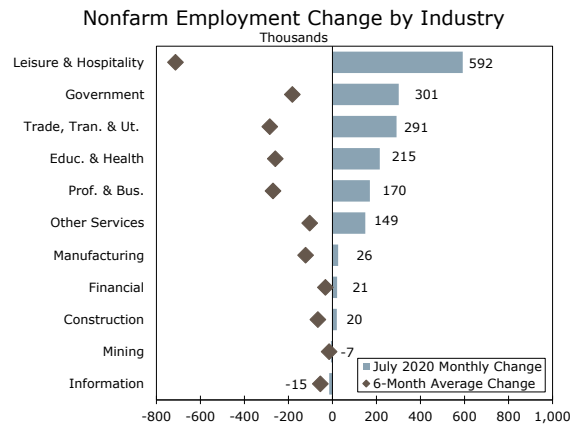
Across the private sector, job growth eased up broadly, but most major industries continued to chip away at earlier job losses. That suggests a broader hit to employment beyond the industries most immediately impacted by social distancing efforts has not manifested in a material way, at least not yet.

The more balanced mix of job growth helped push average hourly earnings up 0.2%, close to the pre-pandemic trend. That said, with employment in leisure & hospitality, by far the lowest-paying major industry, down more than 25% since February, the year-over-year change of 4.8% in average hourly earnings (AHE) still overstates the underlying wage picture.

As it becomes clear that businesses will be contending with a pandemic economy for some months to come, job losses are shifting from temporary to permanent. That brings us to a more dangerous phase of the crisis. Permanent job losers will not be as quick to return to work, as connections with employers are severed. Longer spells of joblessness lead to a loss of skills and networks, making it harder yet to return to employment.

The shift to permanent job losses comes at a time when unemployment remains staggeringly high. The unemployment rate moved down to 10.2%, which is still above the high-watermark of the last cycle and was helped to some degree in July by labor force participation edging lower. The BLS continues to struggle with misclassifying workers as employed rather than unemployed on temporary layoff. That said, the error has been smaller the past two months, and correcting for the issue, the BLS estimates the unemployment rate would at most be about one percentage point higher.

Despite another sizeable increase in jobs in July, nonfarm payrolls have yet to recover even half of the jobs lost since February. Payrolls remain 12.9 million below pre-pandemic levels, a bigger hole than at even the worst point in the aftermath of the Great Recession. Additional gains will be slower-going. Today’s payroll data are already a bit stale with figures capturing the week of July 12-18. Since then, initial jobless claims have been little changed. At the same time, other high frequency readings on the labor market suggest a notable slowdown in the pace of activity. The initial bounce from widespread re-openings is now behind us. Further improvement will occur in fits and starts and depends on the course of the virus.



Wells Fargo Securities Economics Group

Jay H. Bryson, Ph.D.	Chief Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	International Economist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Azhar Iqbal	Econometrician	(212) 214-2029	azhar.iqbal@wellsfargo.com
Sarah House	Senior Economist	(704) 410-3282	sarah.house@wellsfargo.com
Charlie Dougherty	Economist	(704) 410-6542	charles.dougherty@wellsfargo.com
Michael Pugliese	Economist	(212) 214-5058	michael.d.pugliese@wellsfargo.com
Brendan McKenna	International Economist	(212) 214-5637	brendan.mckenna@wellsfargo.com
Shannon Seery	Economist	(704) 410-1681	shannon.seery@wellsfargo.com
Jen Licis	Economic Analyst	(704) 410-1309	jennifer.licis@wellsfargo.com
Hop Mathews	Economic Analyst	(704) 383-5312	hop.mathews@wellsfargo.com
Coren Burton	Administrative Assistant	(704) 410-6010	coren.burton@wellsfargo.com

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